Cardinal Health overview and strategic priorities

Steve Inacker
President, Channel Management
Medical Segment
Cardinal Health helps healthcare providers focus on patient care while reducing costs, enhancing efficiency and improving quality.

19th on Fortune 500

$103B in annual revenue

32K+ employees across the globe
Did you know?

- We deliver to more than **60K** healthcare sites in the U.S. each day.
- We deliver approximately **1/4** of all medications prescribed in the U.S. each day.
- Approximately **1/2** of all surgeries in the U.S. use our products.
- We dispense nearly **12M** radiopharmaceutical doses annually.

We are the business behind healthcare.
Two segments: Pharmaceutical and Medical

Pharmaceutical Segment

Medical Segment
## Our segments today*

<table>
<thead>
<tr>
<th></th>
<th>Pharmaceutical</th>
<th>Medical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$93.7B</td>
<td>$8.9B</td>
</tr>
<tr>
<td>Segment profit</td>
<td>$1.3B</td>
<td>$370M</td>
</tr>
<tr>
<td>Employees (~4,000 corporate)</td>
<td>~12,000</td>
<td>~16,000</td>
</tr>
<tr>
<td>U.S. distribution centers</td>
<td>25</td>
<td>48**</td>
</tr>
<tr>
<td>Manufacturing sites</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Sales and CS</td>
<td>~1200</td>
<td>~1400</td>
</tr>
</tbody>
</table>

*Includes Canada

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Pharmaceutical Segment
Pharmaceutical Segment
Three businesses across the value chain

Pharmaceutical Distribution

Specialty Solutions

Nuclear Pharmacy Services

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Pharmaceutical Segment

U.S. Pharmaceutical Distribution

• Pharmaceutical Distribution
• Pharmacy Solutions
• Pharmaceutical Repackaging
• ParMed
• Medicine Shoppe®
Pharmaceutical Segment

Specialty Solutions

• Specialty Pharmaceutical Distribution
• GPO Contracts & Services
• Third-Party Logistics Services
• Scientific & Regulatory Consulting
• Healthcare Analytics & Marketing Communications
• Clinical Pathways
• Specialty Pharmacy & Access Services
Pharmaceutical Segment

Nuclear Pharmacy Services

- **Leader** in nuclear industry: Reaching >90% of U.S. hospitals in <3 hours
- **Only** national network with both low-energy and high-energy dispensing, and both branded cardiac imaging agents (Cardiolite and Myoview) and lower-cost alternative
- A **leading U.S. player** in number of cyclotrons and doses
- **Partner in research** with universities and pharmaceutical companies
- **Leader** in pharmacy management, outsourcing services and formulary management
Medical Segment
# Medical Segment today\(^1\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product SKUs</strong></td>
<td>&gt;80K</td>
</tr>
<tr>
<td><strong>Customers (U.S.)</strong></td>
<td></td>
</tr>
<tr>
<td>Acute Care Hospitals</td>
<td>~5,000</td>
</tr>
<tr>
<td>Amb. Surgery Centers</td>
<td>~2,400</td>
</tr>
<tr>
<td>Physician Offices</td>
<td>~8,000</td>
</tr>
</tbody>
</table>

\(^1\)FY11 figures.
Medical Segment U.S. locations

*Distribution
*Manufacturing / Presource
Medical Segment locations outside U.S.

*Distribution  *Manufacturing/Presource  *Sourcing

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Medical Segment

Business structure

Channel Management

Category Management

Global Manufacturing and Supply Chain

Functional Support (QRA, OpEx, HR, Legal, IT, Public Affairs)
Medical Segment

Business structure

Channel Management

Category Management

Global Manufacturing and Supply Chain

Functional Support (QRA, OpEx, HR, Legal, Public Affairs)
Category Management Defined

A retailing concept in which the range of products sold by a retailer is broken down into groups of similar or related products known as product categories.

Each product category is run as a mini business with its own strategies which involve a close working partnership with suppliers.
## Category Management

### Organization

<table>
<thead>
<tr>
<th>Surgical Products</th>
<th>Presource</th>
<th>Critical Care</th>
<th>Patient Care</th>
<th>Environmental Technologies</th>
<th>Laboratory Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surgeon Gloves</td>
<td>Procedure kits, Trays and packs</td>
<td>Anesthesia</td>
<td>Wound Care</td>
<td>Fluid Management</td>
<td>Diagnostic Instrumentation</td>
</tr>
<tr>
<td>Surgical Instruments</td>
<td>Drapes &amp; Gowns OR Accessories</td>
<td>Respiratory</td>
<td>Urology</td>
<td>Sterility</td>
<td>Consumables</td>
</tr>
<tr>
<td>Wound Closure</td>
<td>Needles &amp; syringes</td>
<td>Monitoring</td>
<td>Exam Gloves</td>
<td>Durable Medical Equipment</td>
<td>Equipment</td>
</tr>
<tr>
<td></td>
<td>IV solutions &amp; sets</td>
<td>Normothermia</td>
<td>Infection control apparel</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wound Closure</td>
<td>Thermal</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procedure kits, Trays and packs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Drapes &amp; Gowns OR Accessories</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Marketing & Innovation

- Research & Development
- Specialty Sales (four teams)

### Global Sourcing

- Global Manufacturing
- Channel Management

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Category Management
Deep product offering

Cardinal Health brand
Self-manufactured

Sourced

National brand

Ability to make, source and distribute products
Cardinal Health branded product examples

- Fluid management products
- Surgical drapes and gowns
- Surgical and exam gloves
- Procedure kits
Category Management

Disciplined product offering drives value

• Clear set of preferred products for each channel
• Aligned purchasing incentives across suppliers and providers
• Inventory efficiency, higher service levels
• Volume growth for supplier partners
Channel Management Defined

Delivering the **best supply chain solution** to each customer group we serve, including:

- Hospital systems/networks
- Hospitals
- Physician offices
- Surgery centers
- Home health
- Independent labs
- U.S. government
- Suppliers
Channel Management

Broadest reach across all sites of care

- Deeper relationships across the continuum of care
- One-stop shopping for integrated providers
- Ability to aggregate product volume
Channel Management

Organizations

Five regions

Acute Care Sales + Distribution Operations
Supported by centralized Marketing/Strategy team

Supply chain services

• Spend management
• Distribution management
• Inventory management

Ambulatory Care business

Surgery Center, Physician Office, Home Health Sales + Marketing
Channel Management

Ambulatory Care

Focus today

- Surgery Center
  Today: Area of strength
  Future: Continued growth

- Physician Office
  Today: Growing faster than the industry
  Future: Gain additional scale

Other growth opportunities

- Home Healthcare
- Long Term Care

• Develop optimal product portfolios for each channel
• Deploy supply chain services

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Channel Management

Industry leading supply chain services

- Cardinal Health Supply Solutions
- Consolidated Services
- Deman Data Systems
- PriceLink<sup>SM</sup>
- OptiFreight®
- ValueLink®
- ValueLink® Par Optimization
- Supply Management Services
- Wound Closure Management Services

Spend management

Distribution management

Inventory management

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### Channel Management Strategy “in a page”

<table>
<thead>
<tr>
<th>Vision</th>
<th>Become the easiest and most efficient supply chain partner for medical providers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td>Deliver a differentiated day-to-day customer experience earning us the opportunity to deploy our industry leading supply chain services and preferred products portfolio</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY 12 Priorities</th>
<th>Capitalize on our acute channel position</th>
<th>Drive mix</th>
<th>Improve profitability</th>
<th>Improve our position in Physician Office</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Why</strong></td>
<td>Pipeline for preferred products and services • Customers need our help in improving their supply chain cost-effectiveness</td>
<td>Best value for the customer and business • Improved service levels • Opportunities to drive cost reduction beyond the cost of the product</td>
<td>Macro influences • Healthcare reform and reimbursement pressure • Commodity variability • Supplier funding models</td>
<td>Growth opportunity • Care is migrating to the physician office • Important channel in serving the entire care continuum</td>
</tr>
<tr>
<td><strong>Foundational Capabilities</strong></td>
<td>MBT; Cross referencing capabilities; Pricing excellence; Talent management &amp; diversity; Cost, working capital and complexity reduction</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Bringing it all together
Category and Channel

Medical Segment strategy:

Leverage our **product depth** and **channel breadth** to deliver an effective mix of products and a robust set of supply chain services that enable our customers to provide quality care while improving their cost-effectiveness.
Product Contracting and Pricing Ownership

Manufacturer

Co-ownership of contract pricing alignment

GPOs

Health Care Provider

Pricing administration

Distributor
Contract Transformation Update

- Education began on 7/1/11, execution began February 1, 2012, fees to start in July 2012
- All constituents benefit – customer, supplier, distributor, GPO
- Results through November show continued improvement
  1. On time contracts improved 55%
  2. Backdated contracts reduced by 1/3
  3. Late contract fees reduced – not assessed - by 50%
  4. Trend improvement in amount of time prior to contract start date
- Driving for 100% Supplier compliance (industry benefit)
- Process customer credit and rebills for any price discrepancy that is due to CAH process (e.g., backlog of contracts)
Cardinal Health China
Why Cardinal Health China?

- Global strategic partnership (past and future)
- Financial strength and commitment
- Operational excellence (Lean Six Sigma)
- Service innovation
- Proven management excellence
- Transparency
- Corporate governance
- Compliance
Cardinal Health China

**Expanding** to 10 distribution centers; service area covers >250M people

- Opened new state-of-the art DCs in Shanghai and Beijing
- Enhancing our geographic coverage and Local Direct Distribution business

**Building new platforms** to leverage Cardinal Health brand strength

- Consumer healthcare products for retail pharmacies
- Direct-to-patient specialty distribution
- Diagnostics and lab supplies
- Medical device
To be the trusted, go-to-market partner. Cardinal Health enables healthcare in China by providing essential, world-class healthcare services and products.

**Aspiration**

**Growth Pillars**

**Strengthen the Core**
- Build NED & LS; Invest in Logistics Infrastructure
- Expand our Geographic Network of LDD
- Lab Supplies and Medical Devices
- Consumer Health and Retail
- Direct-to-Patient Capability

**Expand into adjacencies**
- Specialized Rural (T3/T4) Service Offerings

**Foundational Capabilities**
- M&A: Strengthen local presence in key markets
- Infrastructure: World class supply chain assets; optimized through Operational Excellence
- Data: Enhanced channel information management and collections (CMI)
- Compliance: Using the right controls and processes
Cardinal Health China: Facts

- FY11 Annual revenue: CNY 7.9 billion (~US $1.1 billion (1))
  - In China, top 9 distributor; #1 foreign-owned

- Ten distribution centers
  - Shanghai (x2), Beijing (2x), Shenyang, Wuhan, Chongqing, Chengdu, Wuxi, Guangzhou (cold chain dedicated)

- First licensed foreign distributor
  - Established 1993

- Full import & distribution rights
  - Medical Prescription, OTC, medical devices, vaccines, health supplements, cosmetics, food, third-party logistics

- One of the largest pharmaceutical importers in China

- Principals: 500+

- Extensive coverage across 330+ cities through all channels
  - Wholesalers: 700 directly (6,000 indirectly)
  - Hospitals: 49,000+ (combined direct/indirect, including community hospitals and health centers)
  - Retail pharmacies: 123,000+
  - Centers for Disease Control ("CDCs"): 1,250+

- Four business lines
  - National Exclusive Distribution ("NED")
  - Local Direct Distribution ("LDD")
  - Logistics Service ("LS")
  - Consumer Health Care

- 800+ employees
  - 11 offices; 49 locations

Note: "NED" refers to sales to wholesalers; "LDD" refers to direct sales to hospitals and retail pharmacies; "LS" refers to third party logistics service.

(1) CNY converted to USD at CNY 6.7 / 1 USD. July 10 to June 11. Switched reporting calendars from acquisition.
Comprehensive Healthcare Platforms…
### Where we add value

- Customs Control
- Documentation
- Regulatory
- Duties
- Inspection

- Storage
- Bonded/Unbonded
- Controlled environment
- Quality Assurance
- Inspection

- Wholesale management
- Nation wide coverage
- Strategic selling
- Cost effective modeling
- Transparency
- Channel Intelligence (Data)

- Hospital relationships
- World-class standards
- Direct feedback
- Direct Coverage

<table>
<thead>
<tr>
<th>HOSPITALS</th>
<th>Logistics</th>
<th>Warehousing</th>
<th>Risk Management</th>
<th>Distribution</th>
<th>Bidding</th>
<th>Sales to HP/RP</th>
<th>Direct to Patient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importation</td>
<td>Transportation</td>
<td>Handling</td>
<td>Cold Chain</td>
<td>Urgent / life saving</td>
<td>Inspection</td>
<td>Taking title</td>
<td>Mitigate risk</td>
</tr>
<tr>
<td>RETAIL PHARMACIES</td>
<td></td>
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Thank you!